

BROWNSVILLE AREA SCHOOL DISTRICT
FAYETTE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

AUGUST 2012

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. R. W. Brashear, Board President
Brownsville Area School District
1025 Lewis Street
Brownsville, Pennsylvania 15417

Dear Governor Corbett and Mr. Brashear:

We conducted a performance audit of the Brownsville Area School District (BASD) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 19, 2009 through December 7, 2011, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2010, 2009, 2008 and 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the BASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in two findings noted in this report. In addition, we identified one matter unrelated to compliance that is reported as an observation. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit findings, observation and recommendations have been discussed with BASD's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve BASD's operations and facilitate compliance with legal and administrative requirements. We appreciate the BASD's cooperation during the conduct of the audit.

Sincerely,

/s/

JACK WAGNER
Auditor General

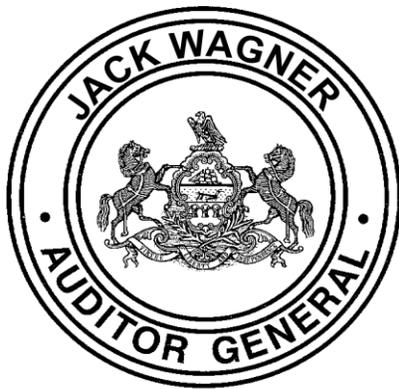
August 13, 2012

cc: **BROWNSVILLE AREA SCHOOL DISTRICT** Board Members



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Brownsville Area School District (BASD). Our audit sought to answer certain questions regarding the District's compliance with applicable state laws, contracts, grant requirements, and administrative procedures; and to determine the status of corrective action taken by the BASD in response to our prior audit recommendations.

Our audit scope covered the period June 19, 2009 through December 7, 2011, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2009-10, 2008-09, 2007-08, and 2006-07.

District Background

The BASD encompasses approximately 57 square miles. According to 2000 federal census data, it serves a resident population of 15,097. According to District officials, in school year 2009-10 the BASD provided basic educational services to 1,934 pupils through the employment of 141 teachers, 79 full-time and part-time support personnel, and 11 administrators. Lastly, the BASD received more than \$15.4 million in state funding in school year 2009-10.

Audit Conclusion and Results

Our audit found that the BASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for two compliance-related matters reported as findings. In addition, one matter unrelated to compliance is reported as an observation.

Finding No. 1: Errors in Reporting Nonresident Pupil Membership Resulted in an Underpayment of Tuition for Children Placed in Private Homes of \$65,827. Our audit of nonresident pupil membership for the 2009-10 school year found discrepancies in reports submitted to the Pennsylvania Department of Education. These errors resulted in a reimbursement underpayment of \$65,827 (see page 6).

Finding No 2: Continued Lack of Internal Controls Over Student Activity Fund Practices. Our audit of the 2010-11 school year student activity fund records found continuing internal control weaknesses (see page 8).

Observation: Amount Paid Pupil Transportation Contractor Greatly Exceeds Department of Education Final Formula Allowance. Our audit of the contracted pupil transportation costs found that the contracted costs of the BASD's pupil transportation operations had increased substantially more than the rate of inflation (see page 11).

Status of Prior Audit Findings and

Observations. With regard to the status of our prior audit recommendations to the BASD from an audit we conducted of the 2005-06 and 2004-05 school years, we found the BASD had taken appropriate corrective action in implementing our recommendations pertaining to deficit fund balances for the fiscal years ending June 30, 2006, 2007 and 2008 (see page 15); certification deficiencies (see page 16); improper retirement contribution reporting (see page 16); continued lack of documentation necessary to verify bus drivers' qualifications (see page 17); internal control weaknesses and a lack of documentation supporting pupil membership (see page 18); and lack of documentation supporting pupil transportation reimbursement (see page 19).

Additionally, we found the BASD did take appropriate corrective action in implementing our recommendations pertaining to the observation regarding the Memorandum of Understanding not being updated timely (see page 20); and the observation pertaining to unmonitored vendor system access and logical access control weaknesses (see page 20). However, we found that for the fourth consecutive audit the BASD has not taken appropriate action regarding student activity funds controls (see page 19).

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each Local Education Agency (LEA). The results of these audits are shared with LEA management, the Governor, the PA Department of Education, and other concerned entities.

Our audit, conducted under authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period June 19, 2009 through December 7, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2010 through June 30, 2011.

Regarding state subsidy and reimbursements, our audit covered school years 2009-10, 2008-09, 2007-08, and 2006-07.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education reporting guidelines, we use the term school year rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the BASD's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Were professional employees certified for the positions they held?
- ✓ In areas where the District receives state subsidy and reimbursements based on pupil membership (e.g. basic education, special education, and vocational education), did it follow applicable laws and procedures?

- ✓ Does the District have sufficient internal controls to ensure that the membership data it reported to the Pennsylvania Information Management System is complete, accurate, valid and reliable?
- ✓ In areas where the District receives state subsidy and reimbursements based on payroll (e.g. Social Security and retirement), did it follow applicable laws and procedures?
- ✓ In areas where the District receives transportation subsidies, are the District and any contracted vendors in compliance with applicable state laws and procedures?
- ✓ Did the District, and any contracted vendors, ensure that their current bus drivers are properly qualified, and do they have written policies and procedures governing the hiring of new bus drivers?
- ✓ Are there any declining fund balances that may impose risk to the District's fiscal viability?
- ✓ Did the District pursue a contract buy-out with an administrator and if so, what was the total cost of the buy-out, what were the reasons for the termination/settlement, and does the current employment contract(s) contain adequate termination provisions?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties?
- ✓ Is the District taking appropriate steps to ensure school safety?
- ✓ Did the District have a properly executed and updated Memorandum of Understanding with local law enforcement?
- ✓ Did the District take appropriate corrective action to address recommendations made in our prior audits?

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations;
- Relevance and reliability of operational and financial information;
- Compliance with applicable laws, contracts, grant requirements and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings, observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations and conclusions based on our audit objectives.

BASD management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the District is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented. Additionally, we gained a high-level understanding of the District's information technology (IT) environment and evaluated whether internal controls specific to IT were present.

Any significant deficiencies found during the audit are included in this report.

In order to properly plan our audit and to guide us in possible audit areas, we performed analytical procedures in the areas of state subsidies/reimbursement, pupil transportation, and comparative financial information.

Our audit examined the following:

- Records pertaining to pupil transportation, bus driver qualifications, professional employee certification, and financial stability.
- Items such as Board meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

Additionally, we interviewed selected administrators and support personnel associated with BASD operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on August 4, 2010, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1 →

Errors in Reporting Nonresident Pupil Membership Resulted in an Underpayment of Tuition for Children Placed in Private Homes of \$65,827

Criteria relevant to the finding:

Section 2503 of the Public School Code provides for Commonwealth payment of tuition for children placed in private homes.

The PIMS manual of reporting provides guidelines for the reporting of all residency classifications.

Our audit of the District's nonresident pupil membership for the 2009-10 school year found discrepancies in reports submitted to the Pennsylvania Department of Education (PDE). These errors resulted in an underpayment of \$65,827 in Commonwealth-paid tuition for children placed in private homes.

For the 2009-10 school year, membership for kindergarten children placed in private homes was under reported by 49 days, elementary membership for children placed in private homes was under reported by 763 days, and secondary membership for children placed in private homes was under reported by 608 days.

The errors were caused by District personnel incorrectly reporting the "District Code of Residence" for the children in the Pennsylvania Information Management Systems (PIMS). District personnel responsible for entering student data into the PIMS system were not familiar with the PIMS residency code reporting guidelines.

We have provided PDE with a report detailing the errors for use in recalculating the District's tuition for children placed in private homes.

Recommendations

The *Brownsville Area School District* should:

1. Review the PIMS manual of reporting for instructions on the proper reporting of nonresident students.
2. Review membership reports submitted to PDE for years subsequent to the audit and, if similar errors are found, submit revised reports to PDE.

The *Pennsylvania Department of Education* should:

3. Adjust the District's allocations to correct the underpayment of \$65,827.

Management Response

Management stated the following:

“When we became aware of this problem, we set up additional training with the employees responsible for entering this data and reviewed all procedures with them.”

Finding No. 2

Continued Lack of Internal Controls Over Student Activity Fund Practices

Criteria relevant to the finding:

Section 511 of the Public School Code provides, in relevant part:

“The board of school directors in every school district shall prescribe, adopt and enforce such reasonable rules and regulations as it may deem proper, regarding . . . the organization, management, supervision, control, financing or prohibition of organizations, clubs, societies and groups of the members of any class or school. . . .”

Our audit of student activity fund records for the 2010-11 school year found continuing internal control weaknesses. It should be noted that student activity fund weaknesses have been the topic of findings in our past three audit reports (see page 19)

Our review found the following internal control weaknesses:

Lack of Receipts and Evidence of Student Participation

The auditor tested disbursements and deposits for 25 percent of the 22 active clubs, which resulted in a review of the following six clubs: Future Business Leaders of America, French Honor Society, Freshman Class, Student Council, Student Development Center and Yearbook.

Fourteen of the 24 disbursements tested had missing receipts, and student participation was not evident on 12 of the 24 check warrant request forms.

Our test work also found that 7 of 14 deposits slips reviewed were signed by only one individual, the advisor. No evidence of student involvement was noted.

Without proper dual controls over processing club receipts the validity of the deposits being made could be questioned. Dual control is the process where two personnel verify accuracy of the cash and checks noted on a deposit slip to ensure that the deposit slip is completed correctly.

Negative Balances

We found that 2 of the 22 student activity fund clubs had negative balances.

Student activity fund operations should be a learning process for the students. Good business practice prohibits accounts operating with negative balances. The operation of student activity clubs with negative balances teaches poor business practice.

Inactive Accounts

The Public School Code does not make provisions for the maintenance of inactive accounts. Inactive accounts increase bookkeeping costs and are susceptible to misuse. The following accounts were identified as inactive accounts:

- Leo Club
- Youth Education Association

Improper Account

Our audit found that the Student Development Center account was not student organized and therefore should not have been included in the student activity fund.

The account is not a student activity fund account because students are not involved in the fundraising or disbursement processes.

Excessive Balances

Eight of the 22 activity fund clubs had balances in excess of \$1,000.

Good business practice limits the accumulation of funds. This encourages the students who accumulated the money to utilize the funds for the purpose for which they were raised, rather than being utilized by students who may join the club in the future and who did not participate in the fundraising activity.

Board policy does not address limiting the accumulation of funds.

Failure to Close Graduated Class Account

The Class of 2011 had an ending cash balance as of June 30, 2011. Board Policy No. 618 requires graduating classes to make a commitment for the distribution of funds prior to graduation.

Recommendations

The *Brownsville Area School District* should:

1. Ensure that all disbursements require receipts and student officer signatures.
2. Ensure that evidence of student involvement in deposits is required for dual control.
3. Require clubs with negative balances to take immediate action to create a positive balance, and require the fund custodian to refuse to disburse funds for a club if such disbursement causes a deficit balance.
4. Close all inactive accounts.
5. Review the Student Development Center account and determine whether this account should be closed, moved to the District's general fund, or placed in another fund.
6. Strengthen board policy by including provisions to require clubs to utilize any large balances remaining in their accounts before accumulating more funds.
7. Comply with board policy by requiring the graduating class to distribute remaining class funds prior to graduation.

Management Response

Management stated the following:

“The Business Manager reviewed proper reporting procedures with the building principal. Emphasis was placed on ensuring that all club actions are reflective of the students’ actions and not the sponsor’s. We reviewed procedures to ensure proper authority and paper trails existed with students reviewing and signing off on all expenditures. We reviewed proper procedures to be followed when clubs become inactive and establishment of new clubs. Also, we reviewed disposition of funds in defunct clubs.”

Observation



Amount Paid Pupil Transportation Contractor Greatly Exceeds Department of Education Final Formula Allowance

Our audit of the Brownsville Area School District’s (BASD) contracted pupil transportation costs for the school years ending June 30, 2007 through June 30, 2010, found that the contracted cost of the District’s pupil transportation operations had increased substantially more than the rate of inflation over the four-year period, based on data submitted to the Pennsylvania Department of Education (PDE) by the District for reimbursement purposes. The amount paid the District transportation contractor increased more than PDE’s inflation-adjusted final formula allowance, which is used to determine reimbursement of pupil transportation services.

PDE’s final formula allowance provides for a per vehicle allowance based on the year of manufacture of the vehicle chassis, the approved seating capacity, the number of trips the vehicle operates, the number of days pupils were transported, the approved daily miles driven, any excess hours, and the greatest number of pupils transported. The final formula allowance is adjusted annually by an inflationary cost index.

The District receives the lesser of the final formula allowance for the vehicles or the actual amount paid to the contractor, multiplied by the District’s aid ratio.

The following chart details the fluctuation in contracted costs compared to PDE’s final formula allowance:

<u>School Year</u>	<u>Contractor Costs</u>	<u>Final Formula Allowance</u>	<u>Contractor Costs Over Final Formula Allowance</u>	<u>Percentage Difference</u>
2009-10	\$1,781,771	\$1,095,474	\$686,297	62.65
2008-09	1,714,150	1,181,146	533,004	45.13
2007-08	1,688,353	1,131,688	556,665	49.19
2006-07	1,622,997	1,213,132	409,865	33.79

Our audit of the services provided by the pupil transportation contractor found that over the last four years the number of vehicles used to transport pupils had decreased, the District's total number of pupils transported had decreased, and the number of approved annual miles vehicles traveled had decreased by more than 16 percent, as follows:

<u>School Year</u>	<u>Number of Vehicles</u>	<u>Number of Pupils</u>	<u>Total Approved Annual Miles</u>
2009-10	47	2,020	583,420
2008-09	50	1,849	633,420
2007-08	55	2,089	631,966
2006-07	52	2,084	698,472

The following chart details the total amount paid the contractor each school year, the maximum cost allowable, the total reimbursement received by the District from PDE, and the actual local tax dollars required to operate the District's pupil transportation program.

<u>School Year</u>	<u>Contractor Cost</u>	<u>Maximum Allowable Cost</u>	<u>Reimbursement Received</u>	<u>Local Share</u>
2009-10	\$1,781,771	\$1,095,474	\$ 988,708	\$ 793,063
2008-09	1,714,150	1,181,146	1,072,613	641,537
2007-08	1,688,353	1,131,688	1,054,346	634,007
2006-07	<u>1,622,997</u>	<u>1,213,132</u>	<u>1,131,366</u>	<u>491,631</u>
Total	<u>\$6,807,271</u>	<u>\$4,621,440</u>	<u>\$4,247,033</u>	<u>\$2,560,238</u>

A query of PDE's pupil transportation data found that 486 Pennsylvania school districts, intermediate units and area vocational-technical schools for the 2009-10 school year contracted their pupil transportation service. Approximately 27 percent of the local education agencies (LEA) paid their contractors the final formula or less. An additional 23 percent paid less than 10 percent over their final formula allowance. By comparison, BASD paid its contractor 62.65 percent over the state formula for the 2009-10 school year, and 45.13 percent over for the 2008-09 school year. Of the 486 LEAs using transportation contractors, approximately 81.48 percent of them pay their

contractors closer to or less than the state formula than BASD.

On July 1, 2008, without the solicitation of public bidding for the pupil transportation services, a new contract was approved by the board, for the period from July 1, 2008 through June 30, 2018.

During the audit the auditors obtained a copy of the contract. The contract provides a base daily rate and an increase in the previous year's rate by the percent change in the Consumer Price Index established by the Bureau of Labor Statistics of the United State Department of Labor and reported by PDE to the District. District administrative personnel stated the District's board of directors did not seek competitive bids for the pupil transportation services.

While bidding of pupil transportation services is not required under state law, competitive bidding can result in a lower cost to District taxpayers.

Recommendations

The *Brownsville Area School District* should:

1. Prior to negotiating a new contract, the board and administrative personnel should be cognizant of the state's final formula allowance cost formula.
2. Routinely seek competitive bids for all the District's pupil transportation services to ensure the most efficient cost to the District and its taxpayers.
3. Prepare pupil transportation contracts to ensure the local effort share is as minimal as permitted by establishing the base rate and increases in line with PDE's final formula allowance for all pupil transportation costs.
4. Have District personnel continuously monitor and justify any increase in the District's pupil transportation costs.

Management Response

Management stated the following:

"We disagree with this observation. The Board of Education approved a long term contract that allows for cost increases based on PDE's inflation rate. We have experienced an increase in the number of special runs,

which cannot be accommodated through our existing bus runs. We are also transporting more children on our existing runs as we have eliminated runs over the past few years and have made every effort to fill up each bus. I also find it interesting that as fuel and labor costs increase that the state's formula allowance has gone down. Not all occurrences can fit nicely into formulas.”

Auditor Conclusion

For the 2009-10 school year, approximately 81 percent of the Districts in the Commonwealth pay their contractors closer to or less than the state formula than BASD. We think our analysis is useful to the District and stand by the observation.

Status of Prior Audit Findings and Observations

Our prior audit of the Brownsville Area School District (BASD) for the school years 2005-06 and 2004-05 resulted in seven reported findings and two observations as shown below. As part of our current audit, we determined the status of corrective action taken by the District to implement our prior recommendations. We performed audit procedures and questioned District personnel regarding the prior findings and observations. As shown below, we found that the BASD did not implement our recommendations related to lack of internal controls over student activity funds, but did implement our recommendations for the remaining findings and observations.

School Years 2005-06 and 2004-05 Auditor General Performance Audit Report

Finding No. 1 District Reports Deficit Fund Balances for Fiscal Years Ended June 30, 2006, 2007 and 2008

Finding Summary: Our prior audit of the District's annual financial reports, local auditor's reports and general fund budgets found a deteriorating financial condition which resulted in general fund deficits for the 2005-06, 2006-07 and 2007-08 fiscal years. Cafeteria cost overruns, improper borrowing from the Capital Projects Fund, and failure to prepare a balanced budget based on realistic revenue projections resulted in the District's deficit financial situation.

Recommendations: Our audit finding recommended that the BASD:

1. Develop cafeteria food pricing and cost reduction to ensure that the cafeteria program can be self-sustaining.
2. Examine proposed budgets carefully for unrealistic increases/decreases in budgeted revenue and expenditures.
3. Adopt budgets which more accurately estimate the beginning general fund balances in order to project the true financial condition of the District.
4. Provide for a systematic reduction of the general fund deficit.
5. Prepare realistic budgets based on historical data and verifiable revenue projections.
6. Reimburse the Capital Projects Fund and cease using the fund for general operating expenditures.

Current Status: During our current audit procedures we found that the BASD did implement our recommendations. For the fiscal year ending June 30, 2010, the District ended the year with a \$988,655 general fund balance.

Finding No. 2 Certification Deficiencies

Finding Summary: Our prior audit of professional employees' certification found that two employees' held positions with lapsed certificates. The appropriate certification was obtained in May and July of 2007.

Recommendations: Our audit finding recommended that the BASD:

Implement internal controls to ensure appropriate tracking of all employees who are employed on a provisional, non-permanent certificate.

Our audit finding also recommended that Pennsylvania Department of Education (PDE):

Recover any subsidy forfeiture that may be levied.

Current Status: During our current audit procedures we found that the BASD did implement the recommendations. No certification deficiencies were found during the current audit.

Our current audit procedures found that PDE withheld the subsidy forfeiture of \$3,302 from the District's subsidy in December of 2010.

Finding No. 3 Possible Improper Retirement Contributions Reporting

Finding Summary: Our prior audit of the District's administrative personnel payroll records and quarterly contributions found annual annuity payments to the former superintendent, which we believed were improperly reported to the Public School Employees' Retirement System (PSERS) for retirement purposes.

Recommendations: Our audit finding recommended that PSERS:

1. Review the total compensation reported for the former superintendent and render an opinion on the appropriateness of the amount of compensation reported for retirement.
2. If payments are determined to be ineligible for retirement, make the necessary corrections to pension benefits and contributions.

Our audit finding recommended that if PSERS determined that the amount of compensation reported was improper, the BASD:

3. Implement written procedures that will assist in ensuring that only employee compensation eligible for retirement is reported to PSERS.
4. Review subsequent years' contributions to ensure correct contributions were submitted to PSERS.

Our audit finding recommended that If PSERS determined that the amount of compensation reported was improper PDE should:

5. For the 2005-06 and 2004-05 school years, for which the District received reimbursement for the Commonwealth's share of the employer's retirement contributions, assess whether the District received an overpayment and make any necessary adjustments.

Current Status:

During our current audit we found that the individual cited in our prior audit continued to receive the annuity payments until his retirement at the end of the 2007-08 school year. We contacted PSERS and on October 20, 2011, PSERS confirmed that the payment should not have been included for retirement purposes and adjustments to pension benefits and contributions would be made.

District personnel implemented procedures to ensure the error does not reoccur. No other improper payments were found during our current audit.

As of December 7, 2011, PDE had not yet made adjustments to the District's reimbursement. We again recommend that they make any necessary adjustments.

Finding No. 4 Continued Lack of Documentation Necessary to Verify Bus Drivers' Qualifications

Finding Summary: Our prior audit of bus drivers' qualifications for the 2008-09 school year found a lack of documentation needed to verify that all of the District's drivers possessed the minimum required qualifications for employment.

Recommendations: Our audit finding recommended that the BASD:

1. Immediately disallow the drivers in question from operating District buses until their clearances and criminal record information are on file with the District.

2. Ensure that the District's transportation coordinator reviews each driver's qualifications prior to that person transporting students.
3. Maintain files, separate from the transportation contractors, for all District drivers, and work with the contractor to ensure that the District's files are up-to-date and complete.

Current Status: During our current audit procedures we found that the BASD did implement the recommendations. The District now maintains a file separate from the transportation contractor and the transportation coordinator reviews each driver's qualifications prior to them driving for the District.

Finding No. 5 Internal Control Weaknesses and a Lack of Documentation Supporting Pupil Membership

Finding Summary: Our prior audit of pupil membership records and reports submitted to PDE for the 2005-06 school year found internal control weaknesses that resulted in a lack of documentation to support pupil membership reports.

Recommendations: Our audit finding recommended that the BASD:

1. Implement internal control procedures that ensure supporting documentation is retained and available for audit.
2. Require back-up computer document procedures to ensure that necessary supporting documentation is available when necessary.
3. Perform annual comparisons of computer generated membership summaries to the totals generated for the individual grade levels.
4. Obtain and retain all supporting documentation needed to verify the membership days reported for children placed in private homes.

Current Status: During our current audit procedures we found that the BASD did implement the recommendations, in that the District had supporting documentation retained and on file for the audit of membership. However, our audit of the documentation did find errors in reporting nonresident membership, which resulted in Finding No. 1 in our current report (see page 6).

Finding No. 6 Lack of Documentation Supporting Pupil Transportation Reimbursement of \$1,317,591

Finding Summary: Our prior audit of pupil transportation records and reports submitted to PDE for the 2005-06 school year found a lack of documentation supporting reimbursements of \$1,317,591 for the 2005-06 school year.

Recommendations: Our audit finding recommended that the BASD:

1. Obtain all necessary support documentation from the contractor and perform an internal review to ensure accuracy of vehicle data, daily mileage, pupil counts, the number of nonpublic pupils, the number of non-reimbursable pupils, and the number of hazardous pupils.
2. Prepare and retain complete daily mileage rosters identifying miles with and without pupils for each bus run.
3. Prepare detailed route descriptions and perform yearly verification of all bus drivers, bus routes and mileage to ensure all buses follow board approved bus routes.
4. Ensure summaries are prepared and reviewed to identify all nonpublic pupils that are reported for reimbursement.
5. Ensure summaries are prepared to identify all pupils transported on approved hazardous walking routes.

Current Status: During our current audit procedures we found that the BASD did implement the recommendations. The District had all the necessary documentation on file for us to verify the subsidy received by the District.

Finding No. 7 Continued Lack of Internal Controls Over Student Activity Fund Practices

Finding Summary: Our prior audit of the 2007-08 school years' student activity fund records found continuing internal control weaknesses, including inadequate implementation of board policy, lack of receipts, lack of evidence of student involvement with club deposits, and negative balances.

Recommendations: Our audit finding recommended that the BASD:

1. Comply with board policy by developing administrative procedures that govern the disbursements and receipts of student activity funds.
2. Ensure that all disbursements require receipts.

3. Ensure that evidence of student involvement in deposits is required for dual control.
4. Close all accounts with negative balances.

Current Status: Our current audit found that, for the fourth audit cycle, student activity fund internal control weaknesses are the topic of a finding (see Finding No. 2, page 8).

Based on our audit of the 2010-11 school year's student activity fund operations, we determined that the District did not implement the recommendations necessary to correct the internal control weaknesses.

Observation No. 1 Memorandum of Understanding Not Updated Timely

Observation Summary:

Our prior audit of the District's records found that the Memorandum of Understanding (MOU) between the District and the Pennsylvania State Police was signed July 26, 2001, and was not updated until March 9, 2009.

Recommendations: Our audit observation recommended that the BASD:

Adopt a policy requiring the administration to review and re-execute the MOU every two years.

Current Status: During our current audit procedures we found that the BASD did implement the recommendation. The District re-executed the MOU on April 25, 2011.

Observation No. 2 Unmonitored Vendor System Access and Logical Access Control Weaknesses

Observation Summary:

Our prior audit found the District uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). The software vendor has remote access into the District's network servers. Based on our prior audit procedures, we determined that a risk existed that unauthorized changes to the District's data could occur and not be detected because the District was unable to provide supporting evidence that it was monitoring all vendor activity in its system.

Recommendations: Our audit observation recommended that the BASD:

1. Obtain a signed and legally executed contract with the vendor who purchased the software company.
2. Generate monitoring reports (including firewall logs) of the vendor and employee remote access and activity on the system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The District should review these reports to determine that the access was appropriate and that data was not improperly altered. The District should also ensure it is maintaining evidence to support this monitoring and review.
3. Perform reconciliations between system generated membership and attendance reports and manually kept membership and attendance records to ensure that any unauthorized changes within the system would be detected in a timely manner.
4. Allow remote access to the system only when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes. Further, the District should obtain a list of vendor employees with remote access to its data and ensure that changes to the data are made only by authorized vendor representatives.
5. Ensure that the contract with the vendor contains a non-disclosure agreement for the District's proprietary information.
6. Maintain documentation to evidence that terminated employees are properly removed from the system in a timely manner.
7. Ensure that the upgrades/updates to the District's system are made only after receipt of written authorization from appropriate District officials.
8. Establish separate information technology policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or require the vendor to sign the District's Acceptable Use Policy.
9. Ensure that the Acceptable Use Policy includes provisions for authentication (e.g., password security and syntax requirements) and privacy (monitoring of electronic mail, access to files).

10. Establish policies and procedures to analyze the impact of proposed program changes in relation to other business-critical functions.
11. Implement a security policy and system parameter settings to require all users, including the vendor, to change passwords on a regular basis (i.e., every 30 days). Passwords should be a minimum length of eight characters and include alpha, numeric, and special characters. Also, the District should maintain a password history that will prevent the use of a repetitive password (i.e., last ten passwords), and lock out users after three unsuccessful attempts.

Current Status: During our current audit procedures we found that the BASD did implement the recommendations.

Distribution List

This report was initially distributed to the superintendent of the school district, the board members, our website address at www.auditorgen.state.pa.us, and the following:

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